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C O N F I D E N T I A L STATE 181757

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E.O. 11652: GDS

TAGS: PINT, ECON, PFOR, VM, LA, CB

SUBJECT:WEEKLY STATUS REPORT - VIETNAM, LAOS AND CAMBODIA

1. REGIONAL: IMF MISSION TO HANOI AND VIENTIANE (CONF)

AN IMF MISSION WILL VISIT HANOI AND VIENTIANE IN AUGUST TO CONDUCT ARTICLE XIV CONSULTATIONS (A FULL-SCALE ECONOMIC REVIEW) AS A PREREQUISITE FOR EXTENDING MORE LOANS AND CREDIT TO VIETNAM AND LAOS. BOTH COUNTRIES WOULD BE REQUIRED TO PRODUCE DETAILED ECONOMIC DATA ON BUDGETS, MONETARY SITUATION AND BALANCE OF PAYMENTS AND TO PRESENT AN ADEQUATE PLAN FOR DEALING WITH THEIR ECONOMIC DIFFICULTIES. THE IMF TEAM APPEARED HOPEFUL OF THE OUTCOME OF THE CONSULTATION WITH VIETNAM, BUT MORE PESSIMISTIC ABOUT THE LAOS CONSULTATION.
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THE IMF IS PREPARING A TENTATIVE PROPOSAL TO ASSIST THE LAO OUTSIDE THE FRAMEWORK OF THE ARTICLE XIV CONSULTATION. THEY ARE CONTEMPLATING A CONSORTIUM OF THE FUND AND THE IBRD, WITH DONATIONS FROM THE SCANDANAVIANS, GERMANS, FRENCH AND JAPANESE WHICH, WITHOUT EXACTLY DUPLICATING THE OLD FOREIGN EXCHANGE OPERATIONS FUND (FEOF), WOULD FINANCE

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IMPORTS OF CONSUMER GOODS. THE IMF HAS SOUNDED OUT PROS-
PECTIVE DONORS AND FOUND THEM FAVORABLY INCLINED.

2. MEKONG COMMITTEE MEETING IN VIENTIANE (CONF)

THAI, VIETNAMESE AND LAO REPRESENTATIVES MET IN VIENTIANE JULY 27-29 TO DISCUSS THE RESTORATION OF THE MEKONG COMMITTEE. SOURCES CLOSE TO THE DISCUSSIONS INDICATED THE TALKS NEARLY BROKE DOWN BUT THAT THE THREE SIDES DID AGREE TO MEET AGAIN. ONE SOURCE SAID THE TALKS WERE PURELY POLITICAL, WITH NO TECHNICAL DISCUSSION OF PROJECTS. DESPITE AN EARLIER RUMOR THAT THEY MIGHT TAKE SOME PART IN THIS MEETING, CAMBODIAN REPRESENTATIVES DID NOT ATTEND.

3. LAOS: EA/VLC DIRECTOR IN VIENTIANE (CONF)

EA/VLC DIRECTOR FRED BROWN, VISITING VIENTIANE JULY 28-30, PRESENTED CASE FILES AND MADE A NEW DEMARCHE ON MIA'S TO THE LAO MINISTRY OF FOREIGN AFFA;RS DIRECTOR OF THE DEPARTMENT OF DEVELOPED NATIONS. BROWN AND CHARGE CORCORAN REPEATED THE DEMARCHE WITH MFA VICE MINISTER KHAMPHAY BOUPHA. KHAMPHAY MADE IT CLEAR THAT THE LAO STILL ASSOCIATE PROGRESS ON THE MIA ISSUE WITH PROSPECTS FOR FUTURE ECONOMIC ASSISTANCE. HE DID SAY, WHEN PRESSED, THAT SOME INFORMATION HAD BEEN DEVELOPED IN THEIR MIA SEARCH AND THAT THE EMBASSY WOULD BE ADVISED AT THE CONFIDENTIAL

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APPROPRIATE MOMENT.

KHAMPHAY ALSO MADE PLAIN THAT THE LPDR BELIEVES THE U.S. IS ENCOURAGING THAI ACTIVITIES HOSTILE TO LAOS AND IMPLIED THAT THE U.S. MAY BE MORE DIRECTLY INVOLVED IN SUCH HOSTILE ACTIVITIES. BROWN REJECTED THESE CHARGES.

4. U.S. PATROL BOATS ON MEKONG (CONF)

THE THAI PRESS QUOTED THE GOVERNOR OF NAKHOM PHANOM PROVINCE LAST WEEK AS SAYING THAT VIETNAM HAS GIVEN SOME U.S.-MADE PATROL BOATS TO LAOS FOR MEKONG RIVER OPERATIONS. OTHER SOURCES CONFIRM THAT U.S.-ORIGIN PATROL BOATS HAVE BEEN LAUNCHED ON THE MEKONG NEAR SAVANNAKHET.

5. ECONOMIC CONDITIONS IN LAOS (CONF)

THE GOVERNMENT PRESS CALLS THE CURRENT DROUGHT IN LAOS A "RECORD NATURAL CALAMITY" WHICH WILL SERIOUSLY AFFECT THE PEOPLE'S LIVING CONDITIONS. CADRE HAVE BEEN PUBLICLY INSTRUCTED TO KEEP POLITICAL MEETINGS TO A MINIMUM TO ALLOW THE PEOPLE "TO HAVE ADEQUATE REST" SO THAT THEY CAN

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WORK AT OVERCOMING THE AGRICULTURAL DISASTER. IN VIENTIANE, THE POPULATION IS ALSO SUFFERING FROM THE GOVERNMENT CRACKDOWN ON FREE MARKET FOOD SALES AND THE FAILURE OF THE GOVERNMENT TO DEVELOP AN ADEQUATE SUB-STITUTE SYSTEM OF FOOD DISTRIBUTION. THAI/LAO TRADE, WHICH HELPED TO SUPPLY THE VIENTIANE MARKETS, HAS FALLEN OFF AND MAY BE FURTHER HAMPERED BY A REPORTED THAI MOVE TO IMPOSE GREATER BUREAUCRATIC CONTROLS ON ALL THAI ORIGIN EXPORTS TO LAOS.

6. CAMBODIA: THE DROUGHT? (LOU)

PHNOM PENH RADIO HAS ADMITTED THAT "THIS YEAR'S RAINFALL HAS NOT BEEN WELL DISTIRBUTED THROUGHOUT THE COUNTRY" AND
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HAS DISCUSSED EFFORTS TO PROVIDE ADEQUATE IRRIGATION. UNLIKE THE LAO, WHO FRANKLY ADMIT THEY HAVE BEEN UNABLE TO COPE WITH A DISASTROUS DROUGHT, CAMBODIAN RADIO CLAIMS THAT "OUR YOUTHS AND POOR PEASANTS .... HAVE FULL CONTROL OVER NATURE." THE LATTER ARE EXHORTED TO KEEP UP THEIR UNTIRING, DAY-AND-NIGHT EFFORTS TO INCREASE PRODUCTION.

7. VIETNAM: A SHIFT AT AGRICULTURE (UNCLAS)

VICE PREMIER AND POLITBURO MEMBER VO CHI CONG HAS TAKEN THE AGRICULTURE MINISTRY. THE SECTOR IS IN SERIOUS TROUBLE FROM DROUGHT, FOLLOWED BY TYPHOON FLOODING COMPOUNDED IN THE SOUTH BY MISMANAGEMENT AND PEASANT FEAR AT PROSPECTIVE COLLECTIVIZATION. HIS PREDECESSOR WAS A PARTY CENTRAL COMMITTEEMAN AND A GENERALIST WITH FOREIGN AFFAIRS, PROVINCIAL AND AGRICULTURAL EXPERIENCE. CONG'S ASSUMPTION OF THE PORTFOLIO PUTS HEAVIER GOVERNMENT AND PARTY EMPHASIS ON A SECTOR THAT HAS PRIORITY BOTH IN TERMS OF THE FIVE-YEAR PLAN AND DUE TO CURRENT DIFFICULTIES. CONG RECENTLY "LEARNED FROM TACHAI" AS PART OF A VIETNAMESE DELEGATION TO CHINA AND WILL NOW HAVE A CHANCE TO PUT THOSE LESSONS TO WORK.

8. SRV INVESTMENT CODE CRITICIZED (UNCLAS)

CITIBANK'S (HONG KONG) EDWARD HARSHFIELD, WRITING IN THE FAR EASTERN ECONOMIC REVIEW, CRITICIZES VIETNAM'S NEW FOREIGN INVESTMENT CODE AS LESS COMPETITIVE THAN MEETS THE EYE. HE BELIEVES THAT THE TAX RATES DO NOT APPEAR OVERLY ATTRACTIVE, PARTICULARLY FOR A SOCIALIST COUNTRY EAGER TO ATTRACT FOREIGN INVESTMENT IN EXTREMELY COMPETITIVE HIGH TECHNOLOGY AND/OR EXPORT-ORIENTED ACTIVITIES. HE SPECULATES THAT THE 10-15 YEAR NON-NATIONALIZATION PERIOD
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WILL ACTUALLY DETER LARGE SCALE CAPITAL OR TECHNOLOGICAL INVESTMENT SINCE INVESTORS KNOW THAT THE SRV WILL NATIONALIZE INDUSTRIAL ACTIVITY IN THE END. COMMENT: THIS NOTEWORTHY REACTION BY A MAJOR U.S. BANK MAY HEAVILY INFLUENCE OTHER WOULD-BE INVESTORS, AMERICAN OR OTHERWISE. CHRISTOPHER

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